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LEGISLATIVE AUDITOR

State of Montana

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STATE OF MONTANA

FOURTH BIENNIAL REPORT

of the

LEGISLATIVE AUDITOR

December 1974

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senators

Matt A. Himsl, Vice Chairman
William H. Bertsche, Secretary
William L. Mathers
Cornie R. Thiessen

Representatives

Harold E. Gerke, Chairman
J. O. Asbjornson
Gary R. Marbut
William H. Zimmer

Morris L. Brusett, C.P.A.
Legislative Auditor

FOURTH BIENNIAL REPORT

of the

LEGISLATIVE AUDITOR

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STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

December 31, 1974

TO THE MEMBERS OF THE FORTY-FOURTH LEGISLATIVE ASSEMBLY

This fourth biennial report of the legislative auditor is submitted pursuant to the provisions of Section 79-2310(6), R.C.M. 1947. This report summarizes the legislation underlying the legislative post-audit function in Montana, the activities of the Legislative Audit Committee and the legislative auditor for the past biennium, and the audit policy under which the function is administered.

A basic purpose of the legislative audit function is to provide an effective means of legislative fiscal control in the operation of Montana state government. This is accomplished in two ways, through examinations and evaluations of state agency activities, programs, and functions, and through detailed review and analysis of state agency budget requests. In the first instance, we have carried out examinations and evaluations of numerous state agency programs and activities in the past two years. The results of these examinations and evaluations are summarized in this report.

Secondly, in accordance with legislation enacted by the 1974 Legislative Assembly, we have established a specialized legislature fiscal review and analysis program within the Office of the Legislative Auditor. Although this program commenced only about six months ago, it will provide the forthcoming and subsequent Legislative Assemblies with a detailed review and

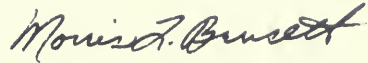
analysis of executive budget and program proposals. The legislative audit staff involved with this program will be assigned to various legislative committees to provide the committees with legislative expertise in the area of fiscal analysis and budget review. These staff members will also provide research information and analyses in response to requests by individual legislators. In past years, we provided this service through the use of our audit staff. This often resulted in a curtailment of our on-going audit program, especially when the legislature convened. The availability of specialized fiscal review and analysis staff should alleviate this in the future.

The on-going operations of the legislative auditor were also heavily affected during the past biennium by two other occurrences, both of which resulted in extensive and unanticipated commitment of our audit staff. These two occurrences were our evaluation of student financial aid activities (work study) at the University of Montana and our review of the Workmen's Compensation Division. In the first case, the audit work was in progress at the beginning of the biennium and, in the second case, the same audit work is still in progress at the end of the biennium. Both of these assignments involved controversial matters as well as possible penal violations. In both instances, a large portion of the audit staff was committed to the assignments, resulting in the postponement of other audit work.

The nature and importance of the activities during the past biennium are somewhat illustrated by the fact that the Legislative Audit Committee met 19 times during the biennium as compared to 12 times during the preceding biennium. The members of the committee have served in an effective oversight capacity in all work undertaken by the office.

I would like to express my gratitude to each of the committee members for their interest and support during this past biennium. Their involvement is a prime reason for the success of the legislative audit program.

Respectfully submitted,

A handwritten signature in dark ink, reading "Morris L. Brusett". The signature is written in a cursive style with a large, stylized "M" and a long, sweeping underline.

Morris L. Brusett
Legislative Auditor

LEGAL BASIS FOR THE LEGISLATIVE AUDIT PROGRAM

The 1967 Legislative Assembly established the Legislative Audit Committee and the Office of the Legislative Auditor by the enactment into law of the "Legislative Audit Act." This act added Chapter 23 to Title 79, of the Revised Codes of Montana, 1974, and is reproduced as amended by Chapter 367, Session Laws of 1974, in its entirety in Appendix E of this report. The purpose for the act and some of its more significant provisions are summarized below.

Legislative Purpose

The Legislative Audit Act states the purpose of the legislative audit function as follows:

"Because the Legislative Assembly is responsible for authorizing the expenditure of public moneys, designating the sources from which moneys may be collected, shaping the administration to perform the work of state government, and is held finally accountable for fiscal policy, the Legislative Assembly should also be responsible for the audit of fiscal accounts and records so that it may be assured that its directives have been faithfully carried out. It is the intent of this act that each agency of state government be audited for the purpose of furnishing the Legislative Assembly with factual information vital to the discharge of its legislative duties."

Legislative Audit Committee

The Legislative Audit Committee consists of four members of the Senate and four members of the House of Representatives. The act provides that the members are to be appointed before the sixtieth legislative day in the same manner as standing committees of the respective houses are appointed. A vacancy on the committee occurring when the Legislative Assembly is not in session shall be filled by the selection of a member of the Legislative Assembly by the remaining members of the committee. The committee is bipartisan in that no more than two of the members from each house can be

members of the same political party. The act further provides that membership on the committee shall terminate with the termination of each member's term of office, or until the end of the sixtieth legislative day or until his successor is appointed, whichever event occurs first. The committee shall elect one of its members as chairman and such other officers as it deems necessary.

The duties and responsibilities of the committee are to appoint the legislative auditor, and to meet as often as necessary to advise and consult with the legislative auditor. The committee hears the reports of the legislative auditor, at which time they become public documents.

Legislative Auditor

The legislative auditor is solely responsible to the Legislative Assembly. He shall hold office for a term of two years beginning with July 1 of each odd numbered year. The committee may remove him for misfeasance, malfeasance or nonfeasance in office at any time after notice and hearing.

The primary duties of the legislative auditor are to:

- (1) Audit the financial affairs and transactions of every state agency and prepare a written report of each audit; and
- (2) Assist the Legislative Assembly, its committees, and its members by gathering and analyzing information relating to the fiscal affairs of state government during legislative sessions, including an independent review of the executive budget and other executive fiscal proposals.

The reports of the legislative auditor may include comments, recommendations and suggestions, but he shall have no power to enforce them nor shall he otherwise influence or direct executive or legislative action.

All state agencies are required to aid and assist the legislative auditor in the auditing of books, accounts and records. The legislative auditor may examine at any time the books, accounts and records, confidential or otherwise,

of a state agency; however, this shall not be construed as authorizing the publication of information which the law prohibits publishing.

Constitution

In June 1972, the electorate of Montana adopted a new state constitution. Included in Article V on "The Legislature" is the following provision in Section 10(4).

"The Legislature shall establish a post-audit committee which shall supervise post-auditing duties provided by law."

ACTIVITIES OF THE LEGISLATIVE AUDIT COMMITTEE

Membership of the Committee

The following senators and representatives are the members of the Legislative Audit Committee:

<u>Senators</u>	<u>Representatives</u>
William H. Bertsche Eighteenth District	J. O. "Boots" Asbjornson Tenth District
Matt A. Himsl Sixteenth District	Harold E. Gerke Eighth District
William L. Mathers Second District	Gary R. Marbut Eighteenth District
Cornie R. Thiessen Third District	William H. Zimmer Sixteenth District

Representative Harold E. Gerke of Billings was elected chairman of the committee for the 1973-74 interim at its meeting on March 12, 1973. Senator Matt Himsl of Kalispell was elected vice chairman, and Senator William H. Bertsche of Great Falls was re-elected secretary of the committee.

Meetings of the Committee

The Legislative Audit Committee held 19 meetings during the 1973 and 1974 calendar years. At these meetings the committee elected its officers, re-established its rules, re-appointed the legislative auditor, adopted a

detail budget and received financial reports of the legislative auditor's operations, approved the audit program of the legislative auditor, and received the audit reports of the legislative auditor and replies thereto of the state agencies affected by the legislative auditor's recommendations.

Committee Rules

At its meeting on March 12, 1973, the rules of the committee were re-adopted with some minor changes and now read as set forth in Appendix F of this report.

Legislation Sponsored Affecting the Audit Program

During the 1973 and 1974 legislative sessions, several bills were introduced and passed based on recommendations contained in the legislative auditor's audit reports that represent major improvements in the state's fiscal operations. Some of these bills were introduced by Legislative Audit Committee members, while others were introduced by other legislators at the request of those state agencies directly affected by the proposed legislation.

Two bills were sponsored by the Legislative Audit Committee that have a direct bearing on the audit program. These two legislative enactments were:

1. House Bill 694 amending the Legislative Audit Act as follows:

- Provided for an extension of committee membership until a successor is appointed.
- Removed the provision for the committee to meet once each quarter and provided for meetings based on need.
- Provided for paid compensation to committee members in connection with committee business.
- Added provision for employing independent contractors and legal counsel as needed.
- Deleted the provision requiring an audit of each state agency at least every two years, thus permitting the audit committee in consultation with the legislative auditor to determine the frequency of audits.

--Provided that the legislative auditor notify the Governor, at the same time as the Attorney General, of any apparent violations of penal statutes.

--Granted the legislative auditor authority to audit records of organizations and individuals receiving grants from the state to determine that the grants are administered in accordance with the grant terms and required grantee agreements to contain an audit access clause.

2. House Bill 674 requires the Attorney General to conduct, on behalf of the state, all prosecutions for public offenses disclosed by an audit of a state agency performed by the legislative auditor.

The legislative auditor's reports issued during 1973 and 1974 included recommendations for statutory changes. The Legislative Audit Committee has requested the applicable state agency heads to submit the recommended legislation for introduction in the next legislative session.

Use of Public Accounting Firms

In order to achieve more timely audits of state activities, and because of limited resources available to the Office of the Legislative Auditor, the Legislative Audit Committee initiated a pilot C.P.A. audit program. This program provided for using C.P.A. firms for financial audits when our resources did not permit us to conduct audits of state agencies requesting them. Eight audits were conducted by C.P.A. firms under the auspices of the pilot program.

The Committee is holding in abeyance an extension of the program, pending a further review of the results of the pilot project. If the program is continued over the next biennium, some procedural modifications should be made. Any final decision on the use of C.P.A. firms in the future will be based on an evaluation of the pilot project, together with a determination of how frequently audits should be made and the availability of audit resources to conduct them.

Currently, if an agency requests an audit and sufficient staff is not available to conduct the audit, the agency is advised to contract directly with a C.P.A. firm to perform the audit.

ACTIVITIES OF THE LEGISLATIVE AUDITOR

General

The primary function of the Office of the Legislative Auditor is to assist the members and committees of the Legislative Assembly in fulfilling their function. The office seeks to accomplish this function several ways: (1) issuance of timely and meaningful audit reports on the efficiency, effectiveness and legality of activities of and reliability of financial reports issued by executive departments and agencies; (2) furnishing independent research and fiscal analysis services to the committees of the Legislative Assembly, and (3) providing individual members of the Legislative Assembly with a means of obtaining reliable and independently produced information about the activities of executive departments and agencies.

A major secondary function of the office is to provide information that will be of assistance to others having an interest in the operations of state government, such as agency officials.

Accordingly, it is our policy that all of our work be conducted in a professional and objective manner and that our reports present factual comments and meaningful recommendations for constructive and practical improvements in the operation of state programs.

The Office of the Legislative Auditor is staffed and organized to facilitate the accomplishment of the foregoing functions. A staff roster at December 31, 1974 is presented in Appendix A on page 16. An organizational chart of the office is shown in Appendix H on page 65.

The Office of the Legislative Auditor operates internally within the following two programs:

- (1) Audit and Examination Program; and
- (2) Fiscal Analysis Program

Audit and Examination Program

The Audit and Examination Program is staffed by professional auditors, including Certified Public Accountants, all of whom have the following minimum qualifications:

A bachelor's degree or higher from a recognized college or university;

A candidate without a bachelor's degree may be accepted if he has demonstrated by previous auditing experience that he is qualified for a staff position;

The ability to work with others on a professional plane;

A high degree of personal integrity; and

An unusual amount of curiosity, industry, perseverance, and resourcefulness.

In addition to these basic requirements, staff auditors are encouraged to take and pass the certified public accountant examination and attain other forms of professional recognition.

The Audit and Examination Program encompasses two major types of audits:

- (1) Financial/compliance audits--testing and verification of account balance accuracy and propriety and verification of compliance with applicable laws and regulations.
- (2) Program or performance audits--evaluations of the efficiency, economy, and effectiveness of state agency programs.

The objectives of audits conducted by the legislative auditor as established in the Legislative Audit Act are "to determine whether:

- (1) The agency is carrying out only those activities or programs authorized by the Legislative Assembly and is conducting them efficiently and effectively.

- (2) Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
- (3) The agency collects and accounts properly for all revenues and receipts arising from its activities.
- (4) The assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.
- (5) Reports and financial statements by the agency to the Governor, the Legislative Assembly, and central control agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations."

The audits are performed in accordance with standards and procedures established and advocated by the American Institute of Certified Public Accountants (AICPA), and the U. S. General Accounting Office (GAO). These standards and procedures include the Statement on Auditing Standards, and Industry Audit Guides, published by the American Institute of Certified Public Accountants, and the Standards for Audit of Governmental Organizations, Programs, Activities & Functions, published by the U. S. General Accounting Office. In this regard, the GAO publication expresses the premises which underlie the Audit and Examination Program of the Office of the Legislative Auditor:

- "1. The term 'audit' may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (a) compliance with applicable laws and regulations, (b) efficiency and economy of operations, and (c) effectiveness in achieving program results.
- "2. Public office carries with it the responsibility to apply resources in an efficient, economical, and effective manner to achieve the purposes for which the resources were furnished. This responsibility applies to all resources, whether entrusted to the public officials by their own constituency or by other levels of government.
- "3. A public official is accountable to those who provide the resources he uses to carry out governmental programs. He is accountable both to other levels of government for the resources such levels have provided and to the electorate,

the ultimate source of all governmental funds. Consequently he should be providing appropriate reports to those to whom he is accountable. Unless legal restrictions or other valid reasons prevent him from doing so, the auditor should make the results of audits available to other levels of government that have supplied resources and to the electorate.

- "4. Auditing is an important part of the accountability process since it provides independent judgments of the credibility of public officials' statements about the manner in which they have carried out their responsibilities. Auditing also can help decisionmakers improve the efficiency, economy and effectiveness of governmental operations by identifying where improvements are needed.
- "5. The interests of individual governments in many financially assisted programs often cannot be isolated because the resources applied have been commingled. Different levels of government share common interests in many programs. Therefore an audit should be designed to satisfy both the common and discrete accountability interests of each contributing government.
- "6. Cooperation by Federal, State, and local governments in auditing programs of common interest with a minimum of duplication is of mutual benefit to all concerned and is a practical method of auditing intergovernmental operations.
- "7. Auditors may rely upon the work of auditors at other levels of government if they satisfy themselves as to the other auditors' capabilities by appropriate tests of their work or by other acceptable methods."

The Legislative Audit Committee has adopted the following steps to be followed by the legislative auditor and the committee in reporting upon the results of each agency audit.

Legislative Auditor

1. Perform the audit and prepare draft report.
2. Provide a copy of the draft report to appropriate agency officials for review and discussion.
3. Prepare the final report and transmit it to the agency with a request to the head of the agency that he reply to the facts, conclusions, and recommendations indicating action he has taken or proposes to take. The agency head is also invited to attend the committee's next meeting if he wishes to discuss any phase of the report or his reply with the committee.

4. Upon receipt of the agency reply, evaluate and comment upon items of disagreement. Incorporate the reply and comments thereon into the audit report.
5. Send a copy of the report to each member of the committee.

Legislative Audit Committee

Discuss the audit report, agency reply and comments on the reply at the next meeting.

1. The Legislative Auditor or his designated staff member presents and reviews the report, including the agency reply and comments on the reply.
2. Upon completion of this presentation, the head of the audited agency is invited to comment upon the audit.
3. Members of the Committee may ask questions during or at the close of either presentation.

Once an agency has been audited, the legislative auditor will, at the time of the next audit of the agency, follow up on the recommendations to determine what action has been taken and reevaluate any recommendations with which the agency might not agree.

By statute, reports of the legislative auditor are distributed to the agency audited, the state controller, and the Legislative Council in addition to the members of the Legislative Audit Committee. Copies are also provided the governor and attorney general for any action they believe appropriate. The committee, at its meeting on November 10, 1969, concluded that it is most important that the leadership of both houses of the legislature and members of the Senate Finance and Claims Committee and House Appropriations Committee be kept informed of the major findings and recommendations of the legislative auditor. Accordingly, copies of the more significant audit reports of the legislative auditor are forwarded to these legislative members. Copies of the reports are available to any member of the Legislative Assembly upon request.

A listing of the reports issued during the past biennium is included as Appendix B on page 17, as well as a summary of recommendations made during the biennium on Appendix D on page 20. A listing of audit assignments in progress for which reports will be forthcoming is presented on Appendix C.

Fiscal Analysis Program

Prior to 1967, the Legislative Assembly relied almost entirely upon the Executive Budget Bureau for assistance and advice in the area of budget analysis. In 1967 the legislature provided for a Legislative Fiscal Analysis program within the Legislative Council. In 1969, the Legislative Assembly enacted Chapter 376, Laws of 1969 (codified as Title 43, Chapter 11, R.C.M. 1947). This legislation created a Legislative Fiscal Review Committee, staffed by the Legislative Council, to oversee the fiscal analysis program. The program was funded during the 1967-71 bienniums, but became inactive after that.

In 1974, the Legislative Assembly reactivated the legislative fiscal analysis program within the Office of the Legislative Auditor. The legislation (House Bill 1128, page 1529, Laws of 1974) provided for the creation of a professional fiscal research staff within the Office of the Legislative Auditor. The staff is responsible to the Legislative Assembly for the independent review of the executive budget and other executive fiscal proposals.

The Fiscal Analysis Program is directed by the Fiscal Analyst who supervises a staff of five professional research analysts, with backgrounds in accounting, economics, and public administration. The Fiscal Analyst is responsible to the Legislative Auditor. The placement of the Fiscal Analysis Program within the Office of the Legislative Auditor is depicted on the organizational chart on Appendix H on page .

During the legislative session the fiscal analysis staff will be assigned to various legislative committees including the finance and taxation committees and subcommittees. In addition, analyses of selected areas of the executive budget will be available to the finance committees and all members of the Legislative Assembly.

The staff will also respond to requests by individual legislators for research type financial information and analyses about the nature, extent, and direction of the programs carried out by state agencies.

Office Location

Although the programs carried out by the Office of the Legislative Auditor cover the entire state of Montana, its operations are directed from offices in Room 135 of the State Capitol in Helena. The Office of the Legislative Auditor can be reached by telephone number 406-449-3122.

APPENDIX A

OFFICE OF THE LEGISLATIVE AUDITOR
ROSTER OF EMPLOYEES

Employed

Legislative Auditor - Morris L. Brusett	July 1967
Deputy Legislative Auditor - Joseph J. Calnan	December 1969
Fiscal Analyst - John D. LaFaver	August 1974
Attorney - John W. Northey	May 1974
Principal Audit Managers:	
Wendell A. Deadmond	April 1973
Ellen J. Feaver	May 1974
Audit Staff:	
Charles D. Avery	July 1971
James H. Gillett	June 1973
David K. Gould	June 1973
Wayne J. Kedish	June 1974
Robert D. Marcoff	May 1973
William O. Salisbury, Jr.	June 1974
David L. Sather	July 1973
Jerry R. Smith	July 1973
Rudolph T. Stock	June 1968
Terry A. Whitaker	August 1971
Karl A. Zeier	June 1973
Fiscal Staff:	
David L. Lee	August 1974
Curtis M. Nichols	September 1974
Judy M. Rippingale	September 1974
Robert J. Robinson	August 1974
Dirk E. Sol	September 1974
Office Staff:	
Eleanor A. Eck	June 1970
Sandra L. Lewis	October 1974
Ruth H. Noland	November 1974
Annell E. Russell	January 1974

APPENDIX B

OFFICE OF THE LEGISLATIVE AUDITOR REPORTS ISSUED DURING 1973 AND 1974

	Report Date	Number Pages	Number Recommen- dations
<u>Elected Officials</u>			
Office of the State Auditor:			
Examination of Financial Statements and Evaluation of Administrative Services Program	September 1973	47	37
Insurance Regulation Program	February 1974	106	74
<u>Administration</u>			
Investment Program*	March 1973	65	53
Purchasing Bureau	August 1974	32	11
<u>Business Regulation</u>			
Department of Business Regulation	September 1973	28	18
<u>Health and Environmental Sciences</u>			
Department of Health and Environmental Sciences	November 1973	48	27
<u>Highways</u>			
Motor Vehicle Pool	July 1973	66	19
<u>Institutions</u>			
Board of Pardons	November 1973	28	23
State Prison	August 1974	57	41
Selected Employee Benefits at Custodial Institutions	October 1974	23	6
<u>Intergovernmental Relations</u>			
Economic Opportunity Division*	July 1973	32	13
<u>Justice</u>			
Registrar's Bureau	August 1974	31	19

APPENDIX B (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
REPORTS ISSUED DURING 1973 AND 1974

	<u>Report Date</u>	<u>Number Pages</u>	<u>Number Recommen- dations</u>
<u>Labor and Industry</u>			
Workmen's Compensation Division	June 1974	160	56
<u>Education</u>			
Montana College of Mineral Science and Technology	November 1974	63	31
Intercollegiate Athletics at University of Montana	July 1973	68	16
Western Montana College	November 1974	60	34

* Audits conducted by public accounting firms under contract with the
Office of the Legislative Auditor.

APPENDIX C

OFFICE OF THE LEGISLATIVE AUDITOR
AUDITS IN PROGRESS AT DECEMBER 31, 1974

Administration

Investment Program

Business Regulation

Milk Control Program

Education

Eastern Montana College

Northern Montana College

University of Montana

Institutions

Warm Springs State Hospital

APPENDIX D

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

ELECTED OFFICIALS

OFFICE OF THE STATE AUDITOR

Examination of Financial Statements
and Evaluation of Administrative Services Program

1. Prepare formal organization charts depicting the functions and levels of supervisory responsibility and authority.
2. Prepare up-to-date job descriptions for all employees.
3. Evaluate the present organizational structure to determine the need for an internal reorganization and reassignment of the various administrative services.
4. Establish a central billing function.
5. Utilize the statewide budgeting and accounting system to record and control all receivables.
6. Take a physical inventory of all fixed assets and reconcile the inventory to the fixed asset records, recording any additions or deletions.
7. Establish a system to record future equipment acquisitions and deletions on a current basis.
8. Examine all fixed assets to assure that the items are properly tagged.
9. Establish control accounts and subsidiary documentation to control and account for each fixed asset.
10. Require employees to return all state-owned equipment presently located in their residences to the appropriate offices.
11. Notify the Department of Administration of all equipment which is in excess of needs.
12. Establish a centralized cash receipt system.
13. Rescind the unwritten policies of requiring companies to pay all new license and examination fees, and submission of separate checks and forms for each applicant.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

14. Accept personal and insurance company checks as payment for amounts due
15. Deposit all collections intact and make refunds through the regular claim warrant process.
16. Establish a standard procedure of reconciling licenses issued, examinations administered, etc., with collection deposits.
17. Consider requesting legislation to establish a forfeiture fee for insurance applications which are disapproved or withdrawn.
18. Arrange to transfer the receipting and depositing of federal moneys for the Veterans' Home to the Department of Institutions.
19. Evaluate the cash disbursement system and make the necessary changes to provide for central processing, recording, and filing, and the proper segregation of duties.
20. Allocate and charge costs to the correct program and use the established budget amendment process to transfer spending authority between programs.
21. Establish procedures and fix responsibility for controlling appropriations.
22. Follow the guidelines established by SBAS regarding accrued expenditures and budget amendments.
23. Require all employees to record long distance telephone calls on a form designed for that purpose.
24. Establish review procedures to verify that long distance telephone calls billed the state are for state business.
25. Seek legislation to eliminate conflicting statutory provisions and clarify others relating to the distribution to fire and police pension funds.
26. Expand the time and attendance reporting system to document time spent by employees in the various programs.
27. Utilize the central payroll system to record and report the accurate allocation of payroll costs by program.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

28. Consult with the Commissioner of Labor to determine which employees are subject to minimum wage statutory provisions and requirements and implement the necessary procedures to assure that the requirements are met.
29. Require employees to work the full number of hours for which they are compensated.
30. Require prior written authorization for employees' travel.
31. Require travel claims to be properly completed to show the nature and purpose of trips.
32. Verify the validity and reasonableness of travel expense.
33. Review the need for the office's permanently assigned motor pool vehicle.
34. Document in writing any special conditions of employment.
35. Require employees to maintain a written record supporting their trips on state business.

Consult with the Department of Administration to:
36. (a) Establish a basis for identifying the types of records that should be retained and/or microfilmed.
37. (b) Consider transferring the microfilming equipment and record retention operation to the Department of Administration under the control of the records management program.

Insurance Regulation Program

1. Prepare a formal statement of objectives, familiarize all staff members with the objectives, and inform staff members how their work contributes to the objectives.
2. Prepare a plan to assure that objectives are met and revise the plan as necessary to meet changing conditions.
3. Develop and implement an information system that will provide the information needed for management planning and action.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

Authorization of Insurers

4. Keep a record of authorization inquiries and applications and the status or disposition thereof.
5. Develop and use a checklist showing the requirements for the authorization applied for, the staff's determination that the company met or did not meet the requirements, and a reference to the information upon which the determination was based.
6. Deposit all fees received with applications for authorization directly into the General Fund.
7. Seek a legal determination as to the nature of these fees and, if necessary, seek legislation that clearly establishes the fee as an application fee.
8. Establish in writing and publish, insofar as practical, authorization requirements which are in addition to statutory requirements.
9. Send applications forms and a complete list of authorization requirements to all companies that request applications.
10. Disapprove, on a timely basis, authorization applications from companies which cannot be authorized.
11. Establish firm written criteria for determining whether insurance companies meet the authorization requirements, apply these criteria on a consistent basis, and document the basis for any exceptions in applying these criteria.
12. Inform unqualified applicants on a timely basis of the reason their applications are not approved.

Licensing of Insurance Agents, Solicitors, and Adjusters

13. Follow up in those instances where the sponsoring insurance companies do not provide the specified information.
14. Establish written procedures for the licensing of applicants for agent, solicitor, and adjuster licenses.
15. Keep a record of agent, solicitor, and adjuster license applications received and the disposition thereof, including the basis for action taken on each application received.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

16. Inform applicants who will not be licensed why their applications were not approved.
17. Determine the necessity of licensing agents and solicitors for trip insurance and either implement procedures to assure that they are licensed or propose legislation to exclude this type of insurance from the requirement for licenses.
18. Implement procedures to effectively control the sale of insurance policies through vending machines.
19. Periodically notify adjusting companies of the need for all independent adjusters to be licensed and develop and implement a system to determine if unlicensed adjusters are adjusting losses in Montana.
20. Determine the feasibility of requiring applicants for adjuster licenses to pass a written examination.
21. Keep adequate records of the date of each action in the flag file and of the reasons for flagging a person and for removing the flag for any purpose.
22. Develop written criteria for listing people in the flag file, for removing flags, and for licensing people listed in the flag file.
23. Develop and implement a system to screen all applications for agent and solicitor licenses against the flag file.
24. Document all reasons for licensing individuals whose names have been flagged.

Examination of Agent and Solicitor Applicants

25. Revise the agent and solicitor examinations periodically and, at the time of each revision, establish a date for the next revision.
26. Prepare and use multiple versions of each examination.
27. Take an immediate physical inventory of all examination booklets, establish an accountability record for the booklets, post the record for additional exams printed and the disposition of all booklets, use exams in sequential order, and take periodic inventories in the future and reconcile with the record.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

28. Test each applicant on all of the questions for each type of insurance he is to be licensed for.
29. Require all agents licensed for disability insurance to pass the disability examination.
30. Grade each type of insurance questions separately and license applicants for only those types of insurance in which they scored 70 percent or higher.
31. Discontinue the practice of altering answer sheets after they have been graded, and grade the exams on a fair and impartial basis.
32. Discontinue the practice of not marking wrong answers after 30 such wrong answers have been marked.
33. Discontinue the practice of giving oral examinations to applicants who fail the written test, without specific written approval by the commissioner.
34. Have all answer sheets reviewed by a second party to assure that all wrong answers have been marked wrong, that the wrong answers have been correctly counted, and that the percentage score has been correctly determined.
35. Establish written criteria as to how long a waiting period should be required before reexamination of applicants who fail an insurance examination.
36. Require all applicants who fail an examination to adhere to the same waiting period, except in hardship cases specifically approved in writing by the commissioner.
37. Accumulate statistics as to the number and location of residence of applicants taking the exam, periodically analyze the statistics, and determine the optimum frequency and locations that the examination should be given.

Approval of Insurance Forms

38. Develop and implement procedures to determine whether unapproved forms are being used.
39. Require title and farm mutual insurance forms to be approved before being used in Montana.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

40. Require declaration pages of property and casualty insurance policies be approved prior to use in Montana.

Review of Annuities

41. Seek legislation requiring insurance companies to furnish disclosure statements on forms approved by the department before the sale of annuity contracts.

Examination of Insurers

42. Require all examiners be salaried state employees and seek the necessary appropriation to pay the examiners.
43. Develop an examination procedure checkoff list and require the examiners to initial each procedure upon its completion during the examination.
44. Prepare and retain adequate working papers for each examination conducted.
45. Extend examination procedures to include confirmation from outside sources where appropriate.
46. Extend examinations to include verification of income and expense accounts.
47. Coordinate its examinations with audits of the same companies conducted by independent public accounting firms.

Regulation of Insurers' Security Deposits

48. Implement a system of accounting for insurer deposits that will provide current and complete records.
49. Implement a system of internal control that establishes clear lines of authority, responsibility, and provides the necessary separation of duties.
50. Value securities at market and establish a system for periodic evaluation of securities on deposit.
51. Notify promptly, by registered mail, companies with deficient deposits.
52. Require all companies whose deposits are deficient to increase deposits to required levels.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

53. Revoke certificates of authority of all companies that, after notification, do not increase their deposits to the required levels.

Collection and Distribution of Premium Taxes

54. Explore the feasibility of requesting legislation to amend Section 40-2821, R.C.M. 1947, to provide for taxation of non-insurance income and annuity considerations.
55. Establish written criteria for use in determining whether exceptions should be granted to the five percent limitation on real estate investments.
56. Consider proposing legislation to amend Section 40-2821, R.C.M. 1947, to require quarterly installments of insurance premium taxes.
57. Revise the life and disability insurance tax form so that all insurers are aware of which premiums are taxable and which are not.
58. Revise the property and casualty insurance tax form to reflect the correct tax rate for marine insurance.
59. Periodically review tax forms to determine whether they are still appropriate.
60. Seek a legal opinion on the taxability of the annuity contracts converted to life insurance policies.
61. Recover the underpayments from companies whose prior premium tax payments were deficient.
62. Include the procedure of verifying premium tax payments on the examination procedure checklist.
63. Refund all tax overpayments, including retroactive refunds, without requiring the company to request such refund.
64. Review the statutes relating to premium tax distributions and propose legislative changes necessary to clarify the intent of these distributions, eliminate conflicts in the statutes, and establish fair and equitable distribution procedures.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

Action on Insurance Complaints

65. Make accurate determinations as to the disposition of complaints,
66. Employ a field investigator with the necessary ability to investigate insurance complaints.
67. Make thorough investigations of insurance complaints where the circumstances warrant such investigation.
68. Exercise its powers to hold hearings when the nature of complaints indicates such hearings would be useful,
69. Revoke the licenses of agents or companies in those instances where the evidence indicates they have violated the Montana insurance statutes.
70. Adopt rules of practice for the insurance regulatory function and file the rules with the Secretary of State pursuant to the Montana Administrative Procedure Act.
71. Develop and implement a program of continuous analysis of insurance complaint data.
72. Assign the policyholders' service section supervisor more time to manage the investigation of insurance complaints and determine what type of data could be obtained from analysis of insurance complaint information.
73. Use information obtained by analysis of insurance complaints to institute corrective measures.
74. Establish systematic procedures for the policyholders' service section to inform other sections of insurance complaints involving agents, forms, insurance rates, or other matters that are normally handled by such sections.

DEPARTMENT OF ADMINISTRATION

INVESTMENT PROGRAM

Board of Investments

1. Establish written monthly routine for follow-up on discrepancies in investment collections.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

2. Investment Division to assist P.E.R.S., T.R.S., and others in developing a uniform audit program for real estate mortgages, as well as to develop methods for joint audits in order to eliminate present duplications in effort.
3. Board to take action to change the present depository system to a one-bank system for clearing state warrants.
4. Board to evaluate all demand deposit balances and establish proper maximum and minimum balances for all banks.
5. Adoption by Board of a uniform policy for recording gains and losses on security exchanges and promulgation of written procedures to all agencies involved.
6. Investment Division to make necessary adjustments to their portfolio inventory as of June 30, 1972 and advise agencies of adjustments to be made to their records.
7. Book losses of \$852,243, realized on security trades, should be deferred and amortized over the life of the securities acquired.
8. No action deemed necessary to adjust P.E.R.S. amortized book values from the scientific to the straight line method as of June 30, 1972.
9. Investment Division personnel should cooperate with the Workmen's Compensation Division to insure that they are recording premiums and discounts on a basis consistent with other agencies.
10. Cooperate with all other agencies to attain complete transfer of the investment receiving function to the Investment Division.
11. Establish proper written procedures for follow-up on all exception and discrepancy listings produced by the new system.
12. Written procedures to all agencies involved regarding proper and uniform accounting methods for handling all types of investment transactions.
13. Issue an advisory to all state agencies to discontinue agency detail record keeping for investments, when centralized system is completely operational.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

14. Evaluate forms presently used in investment acquisitions and collections to determine whether they could be redesigned and consolidated.
 15. Explore statutes relating to the Board's responsibilities and duties as the Depository Board.
 16. Secure a listing of exceptions noted on the investment inventory and make the necessary adjustments.
- In conjunction with the State Treasurer:
17. Seek legal clarification of 79-201, pertaining to custody of securities and safekeeping receipts.
 18. Outline in writing the duties and requirements of each agency involved in the investment process.
 19. Establish guidelines for proper control and handling of repurchase agreements.
 20. Seek legal clarification of Paragraph 2, 79-301 re the statutory requirements for collateralizing state deposits.
 21. Formulate procedures for proper handling and accounting for partial redemptions.
 22. Board and the Treasurer to seek legal clarification regarding custodial responsibilities with respect to real estate mortgages, FHA Notes and University System investments.
 23. Discard contemplated plans for computerizing mortgages, since it would be a duplication of effort.
 24. Establish control accounts only for mortgages in the investment inventory system.
 25. Request agencies to forward monthly mortgage collection reports to the Investment Officer for review.
 26. Adopt a uniform and consistent policy with regard to deferral and amortization of mortgage discounts and communicate this policy to other agencies.
 27. Suggesting a feasibility study in the area of state servicing of its own mortgage investments.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

28. Establish accounting control over the several real estate investments.
29. Assist agencies with real estate investments in devising uniform accounting procedures and reporting relevant data to the Division.
30. Take a complete physical inventory of fixed assets.
31. Establish values for all fixed assets.
32. Establish ledger control for fixed assets.
33. Maintain perpetual inventory in detail of fixed assets.
34. Review the possible conflict of interest situation and seek clarification of the existing statute.
35. Consider action, if deemed necessary and appropriate, to revise the statute.
36. Take action to adjust minor differences, in par value and cost, between annual report figures and audited figures.
37. Incorporate mortgage balance totals in the investment accounting system.
38. Gain accounting and investment control over those investments of the University System not presently under control.
39. Establish a goal of accumulating all pertinent data so that investment reports will reflect complete figures for all state investments.

STATE TREASURER

40. Confer with the Workmen's Compensation Division to discontinue their practice of maintaining their own locked safe in the Treasury Vault.
41. State Treasurer in cooperation with the Department of Administration to initiate immediate action to determine the source of delays in recording deposits.
42. State Treasurer in cooperation with Department of Administration to assure that all deposits are being made and recorded immediately.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

43. Treasurer in coordination with the Department of Administration to develop a more systematized method of reporting prior and projected cash flows and balances.
44. Consolidate custodial function for all securities (including Treasury investments) under one person.
45. Complete an up-to-date inventory of all securities, including Treasury investments, and submit any discrepancies to the Investment Division for adjustment.
46. Seek legal clarification of custodial responsibilities with regard to investments not presently under Treasurer's custodial control.
47. Discontinue showing treasury investments as part of "cash and cash items."
48. Implement a system of par value dollar control over all investments, reconciling monthly with the Investment Division inventory.

TEACHERS' RETIREMENT SYSTEM

49. Discontinue practices relating to receiving and recording of all real estate mortgage collections.
50. Take action to reconcile investment control with detail records.
51. Update mortgage files and establish annual audit program.
52. Clear up and adjust the unreconciled cash difference outstanding since June 30, 1972.
53. Implement real property accounting procedures consistent with those used by P.E.R.S.

PURCHASING BUREAU

1. The Department of Administration seek legislation to amend Montana preference laws to eliminate the three percent preference and establish an in-state preference for tie-bids and reciprocal preference against firms from states exercising discriminatory in-state percentage preference.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

2. Establish "item by item" bids as the primary basis for contract awards and consider "all or none" awards only when two or more bidders submit equally comprehensive bids and when analysis shows a clear price advantage to the state.
3. Revise the request for quotation forms to include a statement that "item by item" awards will receive primary consideration, but that "all or none" bids may be submitted as alternates.
4. Develop a management information system to show results of purchasing transactions and progress toward determined goals.
5. Establish a routine for providing information to the Department of Revenue to show firms transacting business with the state of Montana.
6. Use competitive bid procedures for the purchase of tires.
7. Use specifications or standards to assure procurement of the quality desired.
8. Review other commodities where repetitive requisitioning is prevalent and use term-contract procedures as opposed to individual procurement actions.
9. Establish written policies and procedures regarding the control and disposition of sample products.
10. Design formal written policies and procedures for the control of sealed bids.
11. Take steps to separate the duties of buying and maintaining physical custody of sealed bids.

DEPARTMENT OF BUSINESS REGULATION

1. Charge costs of operating the Centralized Services Division to one appropriation and distribute to other financing sources on the basis of services provided.
2. Seek adjustment of the office space lease to recognize the lower square footage occupied.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

3. Establish review procedures within the Centralized Services Division to insure that travel claims are accurate, complete, and in accordance with state laws and regulations.
4. Consult with the State Department of Administration to establish a system of employee travel advances.
5. Discontinue the practice of advancing vacation and sick leave and adhere to the statutory provisions relating to completion of qualifying employment periods.
6. Correct leave records by eliminating sick leave earned prior to earlier termination from state employment.
7. The Department of Administration prescribe procedures for the granting and documentation of authorized leaves of absence.
8. Revise responsibilities for payroll preparation, processing, and distribution to result in adequate separation of duties.
9. Establish a department-wide uniform system to accurately depict time worked and leave taken by employees.
10. The Department of Administration prescribe guidance and procedures for use by state agencies in the area of time and attendance documentation.
11. Determine the number of travel purchase orders necessary to fulfill current needs.
12. Return travel purchase orders in excess of current needs to the Department of Administration.
13. Place the responsibility and custody over travel purchase orders with one employee.
14. Establish a centralized property accountability system consistent with the property management practices prescribed by Management Memo 70-17.
15. Develop a centralized accounts receivable system providing for:
 - a. Separation of duties within the Centralized Services Division.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

- b. Utilization of the statewide budgeting and accounting system for control and subsidiary accounts.
 - c. Follow-up of past due accounts on a timely basis.
- 16. Implement a system of internal control over cash collections consistent with the guidelines set forth in the Montana Administrative Manual.
 - 17. Seek legal clarification of conflicting statutes governing the disposition of revenue derived from licensing and enforcement activities.
 - 18. Deposit the bank assets administered by the department as trustee in the state treasury and account for the assets through the statewide budgeting and accounting system.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

- 1. Adjust the present membership of the board to include an attorney as required by law.
- 2. Classify and deposit all collections as revenue except abatements.
- 3. Implement control procedures to accrue and record claims in accordance with state statutes and Department of Administration directives.
- 4. Consult with the Budget Bureau of the Department of Administration when budgetary problems are encountered.
- 5. The Department of Administration revert appropriation balances pursuant to the provisions of appropriation acts.
- 6. Eliminate the department's Revolving Fund account, deposit future transient lodging facilities license fees as revenue to the General Fund, and finance the program from the department's general fund appropriation.
- 7. Establish a centralized cashier function within the Centralized Services Division incorporating the requirements of the Montana Administrative Manual.
- 8. Consult with the Department of Administration regarding the use of SBAS to account for and report accounts receivable.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

9. Establish centralized billing and recording procedures for department receivables within the Centralized Services Division.
10. Confer with the Department of Administration for policy guidelines and resolve the questions concerning unusual travel situations.
11. Allocate payroll expenditures on the basis of actual hours worked in each program.
12. Refrain from advancing employee vacation and sick leave prior to completion of the statutory time periods.
13. Review the status of all non-full-time employees on the basis of federal and state criteria.
14. Provide those employees who meet the criteria with employee benefits.
15. Maintain records to substantiate the need for consultants.
16. Establish written agreements depicting the duration, terms, conditions, and compensation of consultants.
17. Establish a procedure to periodically verify the accuracy of billings submitted by consultants.
18. Establish an effective program of determination of client ability to pay for services provided under the heart diagnostic program.
19. Re-bill and follow up on all billings for services provided under the heart diagnostic program.
20. Establish records to compile and determine the cost of water inspection and testing services.
21. Adjust the fees presently charged by the department to cover the cost of water inspection and testing services, or request legislation to delete the statutory requirements to recover cost.
22. Examine all other fees collected by the department to determine whether the level of fees is adequate.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

23. Assess fees for water inspections and service on the basis of cost.
24. Take a physical inventory of fixed assets, reconcile the physical count with the existing records, adjust the records to agree with the physical count, record future additions and deletions on a timely basis, and implement the other provisions of Management Memo 70-17.

The Department of Administration:

25. 1. Prescribe definitive procedures for agencies to follow in managing, recording, and reporting fixed assets.
26. 2. Modify SBAS as soon as practicable to account for and report fixed asset balances for state agencies.
27. Identify all unused or unneeded assets and notify the Department of Administration.

DEPARTMENT OF HIGHWAYS

MOTOR VEHICLE POOL

1. Seek legislation to enable the motor pool to be restructured to include only those vehicles which generate substantial pooling benefit where multi-agency use will be prevalent.
2. Seek legislation to enable basically single agency use vehicles to be distributed to agencies based on justified need.
3. Seek legislation to enable use of special purpose equipment, dependent upon availability, on cost reimbursable basis.
4. Discontinue the motor pools outside Helena.
5. Distribute passenger type vehicles to state agencies situated outside of Helena based upon justified need.
6. Require all Helena based agencies to participate in the motor pool and make arrangements to satisfy federal requirements for transfer of agency-owned passenger type vehicles to the motor pool.
7. Seek legislative approval and financing for the construction of a capitol complex motor pool facility for the long range building plan.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

8. Equip each motor pool vehicle with a credit card to enable purchase of service from commercial facilities.
9. Give consideration to a statewide contract for rental of passenger cars, should agency-owned equipment be unavailable.
10. Structure the rental rate of motor pool vehicles to recover fixed costs plus a variable cost mileage rate.
11. Make normal permanent assignment with utilization as a primary consideration.
12. Legislation be considered to provide for a personal car reimbursement rate lower than the motor pool rate when motor pool vehicles are available but not used, except in those instances when the agency head certifies use of a personal car was justified.
13. Revise the standards for routine maintenance to comply with the recommended frequency suggested by manufacturers.
14. Revise the frequency of vehicle washing to standards of reasonable necessity dictated by the condition of the vehicle.
15. Compare the cost of mechanical repair by commercial facilities and the department's Helena maintenance facility and use of the most economical services available.
16. Assess the leasing agency for damage caused by the negligent or abusive driving of its employees.
17. Encourage departments to establish regulations providing for possible disciplinary action for both negligent and abusive use of equipment.
18. Return excess working capital to the Highway Earmarked Fund as soon as operations permit.
19. Legislation be considered to transfer operation of the motor pool to the Department of Administration.

DEPARTMENT OF INSTITUTIONS

BOARD OF PARDONS

1. Legislation be introduced to specifically eliminate Section 82-903, R.C.M. 1947.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

2. Meet monthly as required by law and, if deemed necessary, propose legislation to make meeting requirements more flexible.
3. Conduct a physical inventory of fixed assets as soon as possible, and comply with the other inventory procedures set forth in Management Memo 70-17.
4. Request the Employment Security Division to remit all federal moneys due the Probation and Parole Division directly to the State Treasurer and notify the department of each such remittance.
5. Notify the State Treasurer of the existence of the revolving fund.
6. Establish the revolving fund in the Statewide Budgeting and Accounting System as a contingent revolving fund.
7. Establish a system of internal control which will provide a method of verifying all loan repayments.
8. Make a timely attempt to collect amounts due from revolving fund loans and report those which are uncollectible to the Department of Administration.
9. Oversee the budgeting and expenditure control procedures of the board.

The Department of Administration:

10. 1. Seek amendment of Section 79-1019, R.C.M. 1947, to allow the Governor to authorize budget amendments advancing spending authority from the succeeding year appropriation without restriction as to biennium.
11. 2. Modify claim processing procedures to the extent necessary to detect those claims which should have been accrued and paid in the prior year.
12. 3. Charge all claims against the proper appropriation so that expenditures are recorded in the proper year.
13. Adjust employee leave records to comply with statutes.
14. Record leave balances and make termination pay computations in accordance with the law and the Montana Administrative Manual.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

15. Make payments of compensation and travel reimbursements to board members in accordance with statutes.
16. Establish a written agreement with the administrator, specifying his salary and all additional benefits.
17. Instruct employees as to proper computation of travel allowances.
18. Require employees to prepare and then sign their travel claims.
19. Establish a strict travel claim review system by each employee's immediate supervisor.
20. Comply with Section 53-517, R.C.M. 1947, regarding use of state vehicles.
21. Adopt the policy of making travel advances available to all employees who travel on state business.
22. Require all employees to record long distance telephone calls on a form designed for that purpose and establish review procedures to verify that long distance telephone calls billed the state are for state business.
23. Establish a written agreement with the board's attorney, specifying his duties, compensation, etc.

STATE PRISON

1. The Department, in consultation with the Department of Administration, review the feasibility of utilizing the Statewide Budget and Accounting System in accounting for Inmate and Patient Trust moneys.
2. Discontinue commingling of state revenue with inmate cash.
3. Discontinue using inmate cash to temporarily finance state responsibilities.
4. Dispose of deceased inmate valuables in accordance with legal requirements.
5. Centralize all inmate cash held in trust under a single custodianship.
6. Transfer the moneys to the state treasury.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

7. Consult with the Department of Social and Rehabilitation Services to determine other permissible uses of the moneys.
8. Periodically evaluate the amount needed for the contingent revolving account.
9. Make timely and regular deposits in accordance with the Montana Administrative Manual.
10. Establish procedures for preparing a prelisting of cash items received in the accounting office and of comparing such prelistings to deposits made.
11. Destroy all unnumbered blank check stock on hand for the bank accounts and account for all checks voided.
12. Properly utilize the safeguards built into the check protector and the safe.
13. Conduct a physical inventory using sound inventory procedures establishing inventory records of all fixed assets for which they are accountable.
14. Establish a policy of taking an annual physical inventory and otherwise complying with other inventory procedures set forth in Management Memo 70-17.
15. Install procedures to adequately control access to the warehouse and commissary and document all merchandise taken from the inventories.
16. Separate the recordkeeping and physical inventory taking from personnel responsible for the custodial function.
17. Initiate proper budgeting and expenditure control procedures and assure compliance.
18. Discontinue the practice of exchange sales to supplement appropriations.
19. Adhere to the various governing statutes when disposing of state property.
20. Establish an equitable system for determining utility usage and charge for reimbursement on the basis of actual costs.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

21. Comply with provision of Section 78-1101, R.C.M. 1947, for disposition of insurance proceeds.
22. The Department of Institutions seek legislation to permit payment of inmate wages from the source of funding which supports the program where the inmate is working.
23. Deposit money derived from sales to the consuming public to the General Fund as prescribed by Section 80-1501(8), R.C.M. 1947.
24. Recognize revenue in the year received by timely deposit and accrual as prescribed by management memo 2-73-1.
25. Seek a revision to Section 80-1503, R.C.M. 1947, to permit sale of valuable by-products on the open market on a routine basis.
26. Adhere to the provisions of the Department of Institutions policy regarding payment of overtime.
27. The Department seek a written opinion from the Department of Revenue regarding the status of such cash payments.
28. The Department of Institutions reduce to writing the present warden's employment agreement clarifying the non-cash benefits to be allowed.
29. Close the open purchase account at the local supermarket.
30. Reassign duties with respect to the payroll process to achieve the necessary separation of duties.
31. Establish written contracts with each part-time professional employee, setting forth the rights and duties of the employer and employee.
32. Require monthly billing for those services not covered by the employment agreement.
33. Seek approval for all out-of-state travel that does not pertain to receiving or delivering prisoners as required by the Department of Institutions policy.
34. Establish a program of monthly reconciliation and review to assure that accounts are properly recorded and adjusted.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

35. The Department of Institutions establish enterprise accounting procedures for the prison ranch.
36. The Department and prison in cooperation with the Department of Administration develop a cost accounting system which would allocate all costs to products for sale.
37. The Department consult with the Department of Administration and the Agricultural Experiment Station for the development of a system of animal and crop production records which will adequately account for total production and disposals and properly fix custodial responsibility.
38. Establish a system which routinely forwards inmate exchange information related to contracts, rates, location, and status to the accounting office.
39. Provide for monthly analysis of inmate trades for possible monetary offset and timely billing.
40. Comply with the provisions of Section 80-1905, with respect to good-time allowances granted.
41. If the awarding of extra good-time can be demonstrated as beneficial in terms of rehabilitation of inmates, propose legislation amending Section 80-1905, to provide for extra good-time.

SELECTED EMPLOYEE BENEFITS AT CUSTODIAL INSTITUTIONS

1. Evaluate the need for the various special benefits presently provided to institution employees and provide only those benefits as a part of the total remuneration which are commensurate with state needs.
2. Establish written policies and procedures governing the nature and amount of special benefits provided, employee eligibility, and rates charged for reimbursable benefits.
3. Develop procedures for determining the state cost of special benefits.
4. Account for employee benefits as personal services expenses.
5. Require all institutions to discontinue selling institutionally produced foodstuffs to employees.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

6. Require the Pine Hills School to reimburse employees for unused commissary privilege and recover amounts of overdraws by other employees.

DEPARTMENT OF INTERGOVERNMENTAL RELATIONS

ECONOMIC OPPORTUNITY DIVISION

1. Prepare monthly financial statements of the combined operation on a timely basis.
2. Determine accounting requirements, document basis for accounting entries, and utilize the statewide accounting and budgeting system.
3. Implement the property control procedures prescribed in Management Memo 70-17 and determine any additional required procedures.
4. Eliminate practice of pre-signing contingent revolving account checks.
5. Reconcile bank statements independently on a timely basis.
6. Maintain travel advance subsidiary ledger in agreement with accountability.
7. File void checks with checks returned from the bank.
8. Document basis for in-kind services, record on a timely basis, and maintain detail in agreement with control account.
9. Establish a deadline for submission of claims.
10. Resolve and pay disputed claims on a timely basis.
11. Require completed employment applications from all employees and retain the completed forms in employee files.
12. Pursue the possibility of changing the federal grant periods to coincide with the state fiscal year.
13. Document the basis for significant deviations from the approved budget.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

DEPARTMENT OF JUSTICE

REGISTRAR'S BUREAU

1. Evaluate the feasibility of implementing an automated or semi-automated cash recording system.
2. Require all mail to be centrally opened and all cash to be removed at the mail opening point and recorded immediately.
3. Route a copy of the cash receipts records to a responsible person outside the cashier's department and require this person to reconcile cash receipts with deposits.
4. Make timely deposits of all cash received, restrictively endorse checks when processing the mail, and otherwise comply with the Montana Administrative Manual.
5. Separate the cash deposit, accounting, and reconciliation duties.
6. Separate the approval, custody, and accounting responsibilities for the revolving account.
7. Implement a control program for fixed assets, including appropriate separation of duties.
8. Implement procedures to safeguard postage.
9. Reconcile the cash received with documents processed and implement procedures for accounting for all license plates sent to counties.
10. Take a physical inventory of its fixed assets, reconcile the physical count with existing records, adjust the records to agree with physical count upon the appropriate approval for the write-off of missing items, record future additions and deletions on a timely basis, and implement the other provisions of Management Memo 70-17.
11. Close the suspense account.
12. Employment Security Division send reimbursements under Federal programs directly to the state treasurer for deposit to the account of the appropriate state agency.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

13. Discontinue cash payments in lieu of insurance contributions and make insurance contributions for all employees who are eligible under the statewide insurance plan.
14. The bureau and the prison establish an equitable means for allocating utilities costs.
15. Establish effective travel claim review procedures.
16. Bureau chief establish and maintain appropriate leave records.
17. Maintain the vehicle registration files as required by Section 53-101(3), R.C.M. 1947.
18. The Department of Justice seek legislation authorizing confidential plates and prescribing guidelines for their issuance and use.
19. Determine the optimum licensing cycle for Montana's needs and seek legislation to implement a license plate term consistent with its determination.

DEPARTMENT OF LABOR AND INDUSTRY

WORKMEN'S COMPENSATION DIVISION

Insurance Coverage

1. Consult with the Employment Security Division to devise a mechanical means of preparing an exception list of employers registered with one agency but not the other.
2. Establish routine procedures for the follow-up and enrollment of employers.
3. Seek application of the penalties required by Section 92-207.1, R.C.M. 1947, against all employers who refuse to obtain workmen's compensation insurance.
4. Seek the legislation necessary to: (1) repeal the provisions of Section 92-211, R.C.M. 1947; (2) establish a special compensation fund for payments to uninsured employees; (3) allow injured employees the option of payment from the fund or suit against their employer; (4) allow the division to make payment in exchange for subrogation rights; and (5) allow the division to undertake actions against uninsured employers.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

Rates and Premiums

5. Establish rate-making processes which (1) respond more promptly to industry loss experience, (2) incorporate experience rating procedures, and (3) provide for volume discounts.
6. Examine the possibility of greater use of NCCI.
7. Establish procedures whereby the levels of initial deposits are allowed to tolerate a uniform percentage of fluctuation in premium before being adjusted.
8. Periodically review the adequacy of all initial deposits and require increased deposits or return excess deposits as the case dictates.
9. Follow schedule for initial deposits recommended by the National Council on Compensation Insurance.
10. Use data processing services to print premium due notices.
11. Establish procedures to verify the absence of premium payments just before premium due notices are mailed.
12. Design follow-up procedures for premium reports not returned.
13. Establish a specific date for monthly preparation of the premium due report.
14. Establish procedures to age premiums due from the end of the grace period through the date of the premium due report.
15. Comply with statutory requirements for computing payroll for sole proprietors, partners, and corporate officers, or seek amendatory legislation.
16. Establish procedures to insure that all future changes are uniformly communicated to employers as soon as possible.
17. Notify all employers in clear and concise language that vacation pay must be included in the payroll figures reported to the division.
18. Establish data processing procedures to distinguish between payroll and premium reports received with payments and those without payments.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

19. Establish procedures to preclude the payment of dividends to employers who are in default on premium payments.
20. The Department of Administration establish procedures to receive, account for, and write off balances declared to be uncollectible by state agencies.
21. Certify uncollectible balances to the Department of Revenue for collection.
22. Transfer balances to the Department of Administration on a regular basis once those balances are recognized as uncollectible.
23. Engage an actuarial firm specializing in workmen's compensation insurance to evaluate the overall actuarial condition of the fund and determine the future actuarial needs of the fund.
24. Establish a formal written agreement when engaging an actuary.

Administrative Assessments

25. Repeal the specific percentage requirements of Sections 92-902 and 1005, R.C.M. 1947.
26. Establish statutory authority to recover administrative costs from employers and insurers on the basis of an equitable formula devised and applied in accordance with the Montana Administrative Code.
27. Allocate all salary costs of the Mine Unit on the basis of mine inspections.
28. Allocate the cost of employee salaries to the activities which benefit from the employees' services.
29. Allocate the costs of the Compliance Bureau to only Plans I and II.
30. Use direct labor hours of safety inspectors as a basis for allocating the cost of the Safety Bureau to Plans I, II, and III.

Reporting and Processing of Industrial Injuries

31. Establish field examination and other procedures to insure that all injuries are reported as required by Sections 92-807 and 808, R.C.M. 1947.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

32. Institute routine follow-up procedures for use in those instances where unreported injuries are identified.
33. Initiate the legal action in those instances where injuries have been reported and such action is appropriate.
34. Advise all employers of the mandatory reporting requirements and penalties prescribed by Sections 92-808 and 41-1718, R.C.M. 1947, and the Montana Administrative Code.
35. Require all employers and insurers to date stamp all injury reports upon receipt from employees, employers, and physicians.
36. Undertake a comprehensive study to determine the reasons why physician reports are excessively delinquent and the alternatives available to remedy the problem.
37. Modify the Employer's First Report of Occupational Injury or Disease (form 37).
38. Review the present procedures used to identify and file employer and employee-related records.
39. Provide all employers with standard identification cards for distribution to employees who have been injured and are entitled to coverage under the various workmen's compensation insurance plans.
40. Request employers to instruct employees to use the cards when seeking assistance or services under the workmen's compensation insurance program.
41. Establish a procedure whereby the first step in the processing system is a screening determination of coverage and segregation of documents by Plans I, II, or III.
42. Request the National Council on Compensation Insurance to assist in the review and revision of the file and document processing systems currently employed by the division.
43. Prepare and disseminate written procedures and guidelines governing the duties and responsibilities of all employees.
44. Conduct periodic training programs and staff meetings.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

Delivery of Compensation

45. Limit the use of lump-sum settlements to those instances where claimants demonstrate that such a settlement is in their best interest from the standpoint of betterment and rehabilitation.
46. Specifically document the basis and justification for lump-sum settlements as required by Section 92-715, R.C.M. 1947.
47. Establish procedures whereby all compromise payments and lump-sum payments result from a routine and methodical process of evaluation and decision within the state insurance program.
48. Formulate regulations requiring that the impairment aspect of all ultimate settlements be based upon the American Medical Association Guides to the Evaluation of Permanent Impairment.
49. Establish a peer review process to routinely review medical reports and other medical activities of the workmen's compensation program.
50. Establish a medical review panel to selectively review controversies arising from the peer review process.
51. Establish a fee schedule governing the attorney fees allowable in conjunction with workmen's compensation cases.
52. Establish and periodically modify the fee schedule in accordance with the procedures of the Montana Administrative Procedures Act.
53. Establish procedures whereby the amount of attorney fees paid are reported and documented in each workmen's compensation case.
54. Apply the present worth adjustment to all lump-sum payments as required by Section 92-715, R.C.M. 1947.
55. Take the measures necessary to pay compensation payments through the state claim/warrant system.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

Agency Organization

56. Enact legislation to (1) organizationally separate the state insurance program from the present Workmen's Compensation Division and establish it as a separate entity within the Department of Labor and Industry, and (2) vest the remaining organizational units of the Workmen's Compensation Division with the power, authority, and responsibility to administer and enforce the workmen's compensation laws.

DEPARTMENT OF EDUCATION

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

1. Establish procedures to equitably allocate interest earned on the investment of local money to the various accounts from which the money was invested.
2. Record the receipt of all gifts and grants and subsequent disbursement and expenditure in the college records.
3. Retain custody and control over the money received through gifts and grants made to the college.
4. Establish written contracts for all work to be done by the foundation on behalf of the college or to be done by the college on behalf of the foundation.
5. Seek compensation for the fair market value of college assets given to the foundation.
6. Consider the possible value or use of assets by other state agencies prior to disposal of such assets to non-governmental entities.
7. Recognize expenditures made by the foundation on the college's behalf as gifts and account for them accordingly.
8. Discontinue processing the foundation's payroll, terminate the foundation employees from the Public Employees' Retirement System, and make public employees' retirement and teachers' retirement deductions only on salaries attributable to college work.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

9. The regents seek legislation authorizing the regents and the Office of the Legislative Auditor access to records of foundations and similar organizations established solely or principally to assist the various units of the university system.
10. Revise its accounting and reporting practices in accordance with guidelines prescribed by the College and University Business Administration manual and the AICPA guide for Audits of Colleges and Universities.
11. Centralize the accounts receivable function and report all receivables on its financial statements.
12. Accrue all valid obligations at year-end.
13. Review the programs presently classified as agency accounts and transfer the accountability for college operations from the agency accounts to the college's accounts.
14. Defer only that revenue which qualifies for deferral and accrue salary liabilities which are unpaid at the end of the fiscal year.
15. Establish procedures to properly record all fixed asset acquisitions and dispositions, take annual physical inventories of fixed assets, and attach identification tags to fixed assets.
16. Charge all assay and analysis costs to the analysis program regardless of the source of funds used to pay the costs, periodically determine the costs of assay and analysis services provided, and establish fees which recover the costs.
17. Allocate administrative and maintenance costs and assessments and levies to auxiliary enterprises, agency accounts, and the foundation and other groups which benefited by the college expenditures, and assess these groups for the costs of administrative and maintenance services and assessments and levies.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

18. Establish adequate control over cash by requiring the business office to open all mail and remove all cash before forwarding mail to the appropriate departments, restrictively endorse checks upon receipt, deposit cash receipts on a timely basis, limit access to safekeeping devices, and change combinations or locks periodically or whenever persons with access to the devices terminate their employment.
19. Separate the authorization, payment approval, and check preparation functions for any local account funds which are maintained and that checks be sent to persons other than those who originated payment requests.
20. Use prenumbered checks for any local bank accounts which must be maintained.
21. Discontinue buying back NSF checks, record such checks as reductions to the bank account and increases to accounts receivable, and refer uncollectible amounts to the Department of Revenue.
22. Inventory all cash change funds under its control, formally establish necessary change funds and maintain them from the contingent revolving account, limit access to fund custodians, provide for formal accountability, and maintain such through periodic reconciliations.
23. Periodically evaluate the student health service program and revise the fees and benefits as necessary to provide a reasonable reserve and maintain the program on a break-even basis.
24. Determine whether the \$15,000 transaction with the alumni association was actually a loan and, if not, take appropriate measures to record the transaction properly.
25. Apply the health service reimbursements policy equally to all students.
26. Grant employees vacation leave in accordance with applicable state laws.
27. Make employee travel advances from the contingent revolving account or SBAS.
28. Include the loan cancellation provision in the NDSL notes.
29. Confer with the Federal agency sponsoring the NDSL program and seek procedures which would allow the use of NDSL funds to write off small balance loans.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

30. Establish and implement collection procedures for NDSL loans.
31. Delegate responsibility for the USAF program to the financial aid officer, determine the future need for the program, and either use the available loan money or withdraw from the program.

INTERCOLLEGIATE ATHLETICS AT UNIVERSITY OF MONTANA

1. Revise the language used on athletic scholarship agreements to specify the terms and conditions under which athletic scholarships are offered to prospective athletes.
2. Establish procedures whereby all athletic scholarships are awarded by the university Scholarship and Student Loan Committee.
3. Establish procedures whereby changes in previously awarded athletic scholarships are approved by the university Scholarship and Student Loan Committee and reduced to writing.
4. Establish procedures whereby the Financial Aids Office is notified and kept apprised of the nature, amount, and duration of athletic scholarships.
5. Require that EOG's awarded for the payment of educational expenses be transmitted directly to students by the Financial Aids Office.
6. The Financial Aids Office deal directly with student/athletes in the administration of student aid programs such as the CWS program.
7. The athletic department adhere to the CWS job assignments depicted on the CWS certification cards or seek a change in the certification when appropriate.
8. Institute procedures to insure that student/athletes employed by the athletic department are performing work in job assignments for which they are certified.

Require that all time sheets and payroll cards used in conjunction with the CWS program:
 1. Show only actual time worked by hour and day.
 2. Reflect, as a precondition of processing and payment, certification by both employer and student employees that the time shown was actually worked in a satisfactory manner.
- 10.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

11. Establish a system to control and supervise work performed by student/athletes to insure that work is commensurate with compensation.
12. Execute, record, and account for any and all loans or advances between student/athletes and the university in the same manner as other university accounts and notes receivable.
13. Examine the purpose and use of the ticket office change fund and restrict its use to the purpose for which it was intended, or modify the fund appropriately.
14. Insure that proper cash handling and depositing procedures are followed by the athletic department.
15. Make all athletic department payments to student/athletes within the established warrant process.
16. Record and show all scholarship expenditures on a gross basis in the university's accounting records and annual financial reports.

WESTERN MONTANA COLLEGE

1. Consult with the Department of Administration in order to devise an accounting system for the college within the Statewide Budgeting and Accounting System.
2. Consult with the state Board of Investments to establish an investment program for the college.
3. Discontinue the practice of making temporary loans to employees from cash on hand and deposit all checks as soon as practicable.
4. Establish accounts receivable records to account for and control checks returned by banks.
5. Establish procedures to insure that the college deposits in local bank accounts are properly collateralized as required by Section 79-301, R.C.M. 1947.
6. Deposit revenue generated from deferred payment services charges in the student fee account in the state treasury.
7. Discontinue deferring student fee collections for periods in excess of Board of Regents policy.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

8. Refer students who are unable to make deferred payments to the financial aids office.
9. Establish acceptable accounting control over accounts receivable.
10. Reflect accounts receivable on the financial statements.
11. Revise its accounting and reporting practices in accordance with guidelines prescribed by the College and University Business Administration manual and the AICPA guide for Audits of Colleges and Universities.
12. Institute the procedures necessary to establish accountability over the activities of the bookstore to safeguard the assets.
13. Record investment transactions in accordance with generally accepted accounting principles.
14. Establish a routine to reconcile its accounting records with those maintained by SBAS.
15. Utilize the accrual system for all accounting transactions.
16. Consult with the Department of Administration and State Auditor to incorporate the college payroll within the central payroll system.
17. Require written authorizations for all payroll initiations, changes, and terminations.
18. Prepare written contracts for faculty members conducting extension courses.
19. Retain the appropriate payroll withholding and deductions on the salaries paid faculty members for extension courses.
20. Require that changes in student pay be documented and approved in writing.
21. Allocate employer insurance premium costs to the benefiting programs and pay the premiums associated with auxiliary enterprises from the proceeds of auxiliary enterprise operations.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR
SUMMARY OF RECOMMENDATIONS
MADE DURING 1973 AND 1974

22. Comply with the provisions of law and regulation governing the administration of leave until such time as the Board of Regents formulates a new policy.
23. Establish a reconciliation process to assure proper posting of leave credits earned and leave taken.

Implement a system of property control and accountability which will:
 24. a. Comply with the requirements of Management Memo 70-17.
 25. b. Provide for placement of an identification number decal on all equipment.
 26. c. Place custodial responsibility through identification of equipment locations.
27. Adjust the accounting records to reflect only that equipment which actually exists in the custody of the college.
28. Transfer the administration of the college short-term loan fund to the financial aids office.
29. Show loan funds on deposit with the United Student Aid Fund, Inc., in the college financial statements.
30. Evaluate the merits of participation in the United Student Aid Fund loan program and seek refund of deposits to the extent appropriate.
31. The food service contract be amended to delete the provision for board scholarships.
32. Evaluate the fees presently pledged in payment of outstanding bond issues.
33. Consult with the Commissioner of Higher Education and the Board of Regents to identify the alternative avenues to meet the financial commitments associated with the bond issue.
34. Contract with an independent public accountant to audit the 1966 bonds accounts in accordance with the bond indenture.

APPENDIX E

LEGAL AUTHORITY

Constitution

The new State Constitution, effective July 1, 1973, provides for establishing control of the state post-audit function within the legislative branch. Specifically, Article V, Section 10(4), Constitution of Montana, provides in part:

"The legislature shall establish a legislative post-audit committee which shall supervise post-auditing duties provided by law."

The Legislative Audit Act

The Legislative Audit Act became law as Chapter 249, Session Laws of 1967. The statutory authority and responsibilities relating to the legislative audit function are contained in Title 79, Chapter 23, R.C.M. 1947, and are reprinted here as amended by Chapter 367, Session Laws of 1974, effective July 1, 1974:

79-2301. Title and purpose of act. This act may be cited as "The Legislative Audit Act." Because the legislative assembly is responsible for authorizing the expenditure of public moneys, designating the sources from which moneys may be collected, shaping the administration to perform the work of state government, and is held finally accountable for fiscal policy, the legislative assembly should also be responsible for the audit of fiscal accounts and records so that it may be assured that its directives have been faithfully carried out. It is the intent of this act that each agency of state government be audited for the purpose of furnishing the legislative assembly with factual information vital to the discharge of its legislative duties.

79-2302. Definitions. In this act

(1) "State agency" means all offices, departments, boards, commissions, institutions, universities, colleges, and any other person or any other administrative unit of state government that spends or encumbers public moneys by virtue of an appropriation from the legislative assembly, or that handles money on behalf of the state, or that holds any trust or agency moneys from any source.

(2) "Committee" means the legislative audit committee.

APPENDIX E (Continued)

79-2303.1. Legislative audit committee created. (1) There is hereby created a legislative audit committee which shall be a permanent joint committee of the legislative assembly.

(2) There is hereby created and established the office of the legislative auditor. The director of this office shall be responsible for performing the duties imposed by this act.

79-2304. Legislative audit committee--appointment and term of members--officers. The legislative audit committee consists of four (4) members of the Senate and four (4) members of the House of Representatives appointed before the sixtieth legislative day of the first session of the biennium in the same manner as standing committees of the respective houses are appointed. A vacancy on the committee occurring when the legislative assembly is not in session shall be filled by the selection of a member of the legislative assembly by the remaining members of the committee. No more than two (2) of the appointees of each house shall be members of the same political party. A member of the committee shall serve until his term of office as a legislator ends or until the end of the sixtieth legislative day of the second session of the biennium following his appointment or until his successor is appointed, whichever occurs first. The committee shall elect one of its members as chairman and such other officers as it deems necessary.

79-2305. Meetings. The committee shall meet as often as may be necessary, during and between legislative sessions, to advise and consult with the legislative auditor. Committee members shall be reimbursed from the appropriation to the office of the legislative auditor for their actual and necessary expenses incurred as a result of interim meetings, and paid compensation as provided by law for interim standing committees.

79-2307. Appointment and qualifications of legislative auditor. The committee shall appoint the legislative auditor and set his salary. The legislative auditor shall hold a degree from an accredited college or university with a major in accounting or an allied field and shall have at least two (2) years experience in the field of governmental accounting and auditing.

79-2308. Appointment of employees, consultants, and legal counsel. The legislative auditor may appoint whatever employees and consultants are necessary to carry out the provisions of this act, within the limitations of legislative appropriations. The legislative auditor may employ legal counsel to conduct proceedings under this act.

79-2309. Term and removal of legislative auditor. The legislative auditor is solely responsible to the legislative assembly. He shall hold office for a term of two (2) years beginning with July 1 of each odd numbered year. The committee may remove him for misfeasance, malfeasance or nonfeasance in office at any time after notice and hearing.

APPENDIX E (Continued)

79-2310. Duties of legislative auditor. The legislative auditor shall

(1) Audit the financial affairs and transactions of every state agency.

(2) Make a full, complete and written report of each audit. A copy of each report shall be furnished to the state department of administration, to the state agency which is audited, to each member of the committee, and to the legislative council.

(3) Report immediately in writing to the attorney general and the governor any apparent violation of penal statutes disclosed by the audit of a state agency, and furnish the attorney general all information in his possession relative to the violation.

(4) Report immediately in writing to the governor any instances of misfeasance, malfeasance or nonfeasance by a state officer or employee disclosed by the audit of a state agency.

(5) Report immediately to the surety upon the bond of any official or employee when an audit discloses a shortage in the accounts of the official or employee. The failure to notify the surety does not release the surety from any obligation under the bond.

(6) Report to the legislative assembly during the first week of each regular session in odd numbered years. Each biennial report shall contain, among other things, copies of, or summaries of audit reports on state agencies and any recommendations relating to such reports.

(7) Have the authority to audit records of organizations and individuals receiving grants from or on behalf of the state to determine that the grants are administered in accordance with the grant terms and conditions. In each instance when a state agency enters into an agreement to grant resources under its control to others, the agency must obtain the written assent of the grantee to this audit access provision consenting to an audit of such grantee.

79-2311. Audit standards and objectives. The objectives of audits of state agencies conducted by the legislative auditor are to determine whether

(1) The agency is carrying out only those activities or programs authorized by the legislative assembly and is conducting them efficiently and effectively.

(2) Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.

APPENDIX E (Continued)

(3) The agency collects and accounts properly for all revenues and receipts arising from its activities.

(4) The assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.

(5) Reports and financial statements by the agency to the governor, the legislative assembly, and central control agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations.

79-2311.1. Legislative auditor to assist legislative assembly during sessions. During sessions of the legislative assembly, the legislative auditor and his staff, when requested, shall assist the legislative assembly, its committees, and its members by gathering and analyzing information relating to the fiscal affairs of state government.

79-2312. Recommendations of legislative auditor. The reports of the legislative auditor may include comments, recommendations and suggestions, but he shall have no power to enforce them nor shall he otherwise influence or direct executive or legislative action.

79-2314. Information from state agencies. (1) All state agencies shall aid and assist the legislative auditor in the auditing of books, accounts and records.

(2) The legislative auditor may examine at any time the books, accounts and records, confidential or otherwise, of a state agency; however, this shall not be construed as authorizing the publication of information which the law prohibits publishing.

(3) The head of each state agency shall immediately notify the legislative auditor in writing upon the discovery of any larceny, or embezzlement, actual or suspected involving state moneys or property under his control or for which he is responsible.

79-2315. Attorney general shall prosecute. The attorney general shall conduct on behalf of the state, all prosecutions for public offenses disclosed by an audit of a state agency performed by the legislative auditor. If the attorney general shall decline such prosecution or shall fail to commence action on a public offense within a reasonable time the county attorney of the appropriate county shall conduct on behalf of the state such prosecution.

APPENDIX F

RULES OF THE LEGISLATIVE AUDIT COMMITTEE

(1) Purpose. The purpose of these rules is to form a basis for the operations of the Legislative Audit Committee and to inform the members of the Legislative Assembly of the Audit Committee's procedure in order that they may assist by their suggestions and resolutions, and by studying problems that may come before the Legislative Assembly.

(2) Parliamentary Procedure. Except as otherwise specified by these rules, the proceedings of the Legislative Audit Committee shall be governed by the Joint Rules of the House and Senate of the Legislative Assembly, so far as they are applicable, together with Mason's Manual of Legislative Procedure.

(3) Officers. The Legislative Audit Committee shall elect, from its membership, a chairman, a vice chairman, and a secretary who shall serve until their successors are elected. Upon the election of the chairman, the vice chairman shall be elected from the other legislative body. The Legislative Auditor shall assist the secretary of the Audit Committee.

(4) Location. The Legislative Audit Committee shall maintain offices in the State Capitol, and all regular meetings shall be held at such offices, but the chairman may call special meetings at any other place.

(5) Meetings. Regular meetings of the Legislative Audit Committee shall be held at the call of the chairman. Upon written request to the chairman of the Legislative Audit Committee by a majority of the members, the chairman is required to call a special meeting.

(6) Quorum. Six members of the Legislative Audit Committee shall constitute a quorum, and a vote of six members on the prevailing side is required to carry any motion. All members of the Committee must be present to organize and elect officers.

(7) Special Audits. The Legislative Audit Committee, upon motion duly made and carried at any regular or special meeting of the committee, shall direct the Legislative Auditor to make any special audit or investigation and to take such action thereon as, in its judgment, is proper and necessary to carry out the purpose and intent of Title 79, Chapter 23, R.C.M. 1947.

Any member of the Legislative Assembly who is not a member of the Committee, may, by written request filed with the Legislative Audit Committee at least six (6) days prior to any regular or special meeting of said Committee, request a special audit of any agency of the state, and upon a vote of six or more members of the Legislative Audit Committee approving such request, the Legislative Auditor shall make such audit.

APPENDIX F (Continued)

(8) Assistance to Individual Legislators. The Legislative Auditor shall furnish routine financial information on any state agency to any member of the Legislative Assembly. Other than routine financial information on any state agency shall be furnished with the approval of the Chairman and Vice-Chairman of the Legislative Audit Committee.

(9) Roll Call. A roll call shall be taken upon any question upon demand of members.

(10) Reports. The Legislative Auditor shall forward to the members of the Legislative Audit Committee a copy of all audit reports. A final audit report is a report that has been accepted by the Legislative Audit Committee. A copy of any final audit report may be forwarded to any member of the Legislative Assembly upon request. News releases shall not be made to the press, radio, or television until after the Committee has officially met to review the audit report of the state agency in question, with the following exception: The Legislative Auditor may conduct a press briefing session no more than two (2) working days prior to a scheduled meeting of the Legislative Audit Committee, at which time he may explain the content of any audit report that is scheduled to be reviewed by the Committee at the meeting.

(11) Change of Rules. These rules may be suspended by a vote of six of the members of the Committee. Amendments to the rules may be made, after six days' written notice of intent thereof, together with a copy of the proposed change, by a vote of six members of the Committee.

APPENDIX G

OFFICE OF THE LEGISLATIVE AUDITOR BUDGET REPORT 1973-75 BIENNIUM

	1973-74 <u>Actual</u>	1974-75 <u>Estimated</u>
<u>Audit Program</u>		
Expenditures:		
Personal Services	\$335,918	\$360,297
Operating Expenses	57,092	66,820
Equipment	<u>2,267</u>	<u>4,300</u>
Total	<u>\$395,277</u>	<u>\$431,417</u>

Funding:

General Fund Appropriation	\$338,808	\$361,305
Legislative Audit Revolving Account <u>1/</u>	<u>56,469</u>	<u>70,112</u>
Total	<u>\$395,277</u>	<u>\$431,417</u>

Facial Analysis Program 2/

Expenditures:

Personal Services	-0-	\$ 82,901
Operating Expenses	-0-	19,000
Equipment	<u>-0-</u>	<u>7,739</u>
Total	<u>-0-</u>	<u>\$109,640</u>

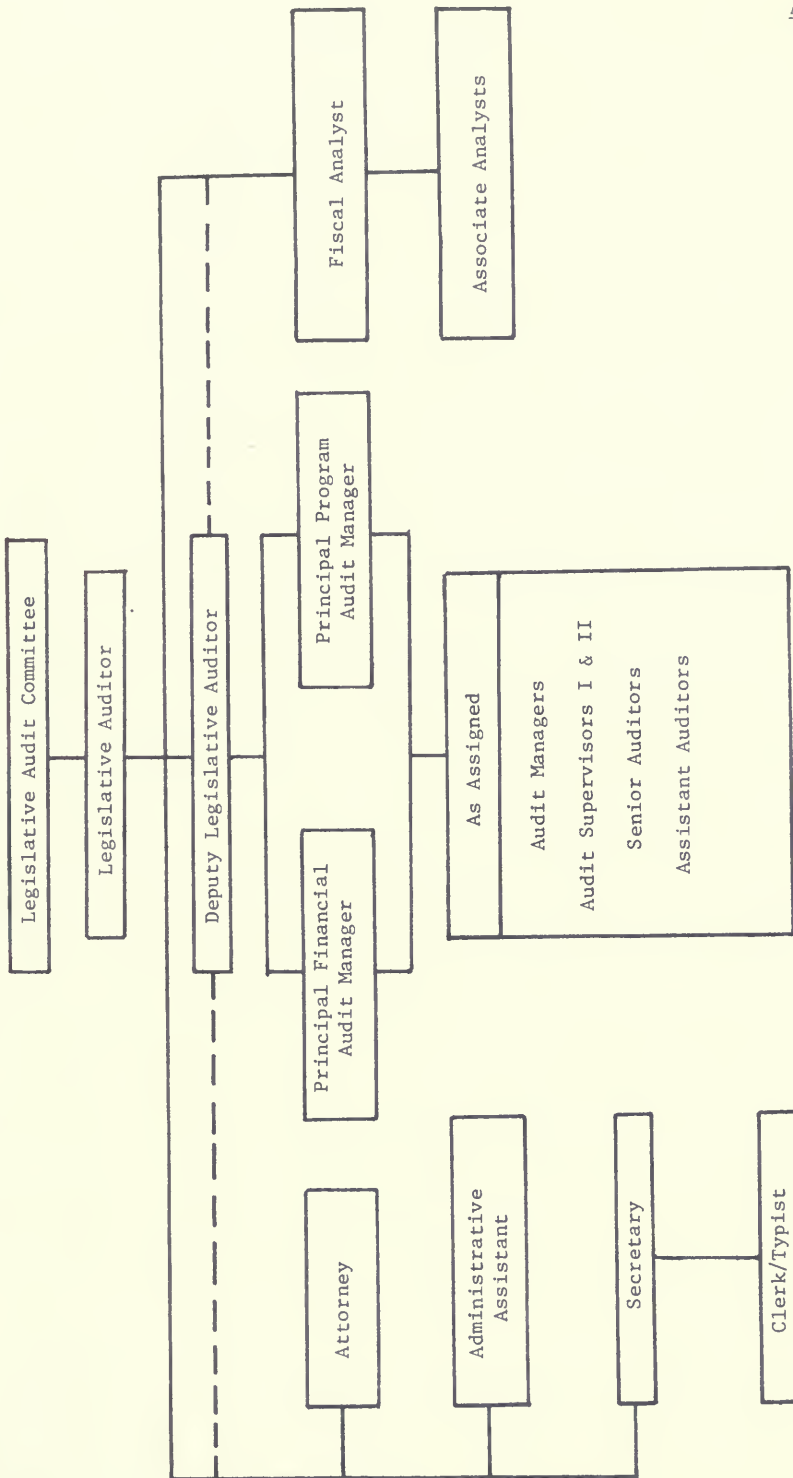
Funding:

General Fund Appropriation	<u>-0-</u>	<u>\$109,640</u>
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1/ Established in accordance with section 11 of Senate Bill 7 and section 15 of House Bill 55, as approved by the Forth-Third Legislature.

2/ Established by House Bill 1128, as approved by the Forty-Third Legislature, effective July 1, 1974.

ORGANIZATION CHART



Date July 29, 1974
 By Marie J. Bruest
 Legislative Auditor

